

It's a dream we all have — our own *daled amos* in Eretz Yisrael. But whether the dream is to purchase land to build a family home or buy land as an investment, the dream can turn into a nightmare without proper planning and guidance. "A person can earn lots of money investing in real estate," says Meir Shterenberg, project director of JOIN Israel's Pitronot Advocacy program, which helps Israelis who have fallen into financial and legal quagmires. "But the risks are great as well. Even under normal circumstances, there are often complications and delays that no one can predict." While we can't predict the future, is there any way to invest wisely, while avoiding the dangers that destroyed the dreams of one *avreich* and his family?

# THE MONEY TRAP

REAL PEOPLE.  
REAL MONEY.  
**REAL MISTAKES.**

**FOREWARNED IS FOREARMED**

# Crash Landing



## [ THE PLAYERS ]

Name: Nosson and Sarah Katz  
Age: Late 40s  
No. of Children: 10  
Residence: Yerushalayim

## [ THE LURE ]

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## [ THE BACKGROUND ]

Even a decade ago, apartments in Jerusalem were hard to find and many were priced out of the range of the average Israeli. Meanwhile, "Kiryat Davidka," (name has been changed), was an up-and-coming *yishuv*.

So when an ad appeared for a new residential building project about ten years ago in the center of town — and the offer came with an attractive discount for "early bird" buyers — it caught the eye of several *avreichim* hoping to find an investment that would supplement their *kollel* income.

Real estate is generally considered to be a wise investment, so what could possible go wrong? The Katz family shares the crash course they received in Real Estate 101.

## NOSSON'S NAIVETE//

Ten years ago, I was an *avreich* studying in a *dayanus* program. I had a goal, a future I could look forward to with enthusiasm. Today, my life is focused on trying to crawl out of a \$100,000 black hole. But I'm getting ahead of myself.

My wife and I were a typical *kollel* couple, and we wanted to stay that way. But with a growing family — we had five kids back then and hoped for more — we couldn't ignore the fact that the bills had outpaced my *kollel* income.

Sarah opened a small business she could run out of our home, which helped some. We also hoped that after I completed the *dayanus* program I'd be earning more. At the same time, we kept our eyes and ears open for other sources of income.

One evening I was on the bus, coming home from *kollel*. Sitting next to me was a guy who was reading one of the chareidi newspapers. I happened to notice an ad. A real estate developer was looking for people to invest in a new residential project in Kiryat Davidka. What caught my eye was the headline: 40 percent discount.

I asked the guy if I could borrow the newspaper for a minute while I jotted down the phone number. We started

# Getting Real About Real Estate

talking. He was also looking for a way to make some extra money. But he said he was nervous about investing in real estate. It had taken his building ten years to get permission to build succah balconies. How long would it take to build a whole apartment? One hundred?

We laughed.

## THE PLOT THICKENS

There is a lot of bureaucracy in Israel, but apartment buildings do get built. So the next morning, I called the development company. I spoke to a sales agent, who told me about the project.

The company had bought a plot of empty agricultural land that had been rezoned for residential use. It was located in the center of “old” Kiryat Davidka. The company had already received all the necessary permits, and they expected to begin building in seven months. Each apartment was going to sell for about \$200,000, but the company was willing to offer a 40 percent discount to people who signed a contract right away and paid in cash.

I did the math. A price tag of \$120,000 sounded more than reasonable for a place like Kiryat Davidka. But why cash?

“You know how it is,” the agent replied. “With any project there are a lot of up-front expenses that have to be paid before the actual building can begin. It’s a cash-flow thing.”

That sounded reasonable too.

## TO GIVAT ZE'EV WE GO

I scheduled an appointment with the company’s lawyer to see the plot of land with my own eyes. On the way, we schmoozed about the real

**Meir Shterenberg points out that Nosson wasn’t the only avreich who got entangled in the Kiryat Davidka scam. Since scams do happen, a potential investor should never rely on a development company’s lawyer like Nosson did. Instead, he should get his own, and not just any lawyer. Just as you wouldn’t go to a podiatrist for a toothache, one should hire a real estate lawyer for real estate transactions.**

**Any knowledgeable real estate lawyer should be able to provide you with the first rule in these kinds of deals: Never give your money to a developer without getting a bank guarantee that your deposit is safe. No matter how attractive the deal sounds, assurances from the company or its lawyer aren’t enough.**

**Even when a company and the offer are legitimate, there are things an investor needs to look out for — surprises that can cause significant delays or derail a project entirely. Here’s a short list, compiled with the help of V.Y.A. Chizuk Mivnim, a Jerusalem-based real estate development company:**

- **Arab-Owned Land:** Your lawyer’s first stop will most likely be Tabu, to find out who owns the land. If there’s a possibility the land is owned by an Arab, it’s best to avoid it — unless you like lengthy lawsuits.
- **Archaeology:** In Israel, archaeologists must examine a site before construction begins. A production schedule should factor in enough time for this to happen.
- **Environmental Activists:** Environmental activists can delay a project over a variety of issues, from protected animals to plants. On one V.Y.A. Chizuk Mivnim project, activists succeeded in shutting down a site over four trees.
- **Infrastructure:** Before construction of a new residential neighborhood or commercial district can begin, the city must build the proper infrastructure, including water, sewage, and electricity. Like with any municipal project, there can be delays along the way.
- **Kablan (Contractor) Woes:** A *kablan* is often working on several projects at once. If one of the *kablan*’s projects fails, it can affect his other work. “There was a *kablan* associated with a project in Ashdod who had another project that failed,” Meir recalls. “The *kablan* had put aside money as insurance for the Ashdod project, but because of the bankruptcy, the government put a freeze on it. The *kablan*’s lawyer protested. The government replied, ‘We’ll see you in court.’ The court case dragged on for five years.”
- **Missing Signature:** Maybe it’s the signature of a government official. Or it could be the signature of a brother in Australia who is a one-fifth owner of a plot of land inherited by all the siblings after a parent’s death. But one missing signature can hold up an otherwise sound project for years — or even decades. “About 12 years ago agricultural land near the Egged bus depot in Ramot Daled was zoned for residential use,” says Meir. “Developers ran to sell apartments. They invested money in the project. All they needed to begin building was the approval of one more government minister. They’re still waiting.”
- **Squatters:** Surprisingly, it’s very difficult to evict squatters in Israel. Meir recounts a story that happened in Karmiel, a city in northern Israel. “There were plans to build a mall that would also have seven floors of deluxe apartments. All the documents were signed, but then they discovered that 20 years earlier, squatters had set up caravans on the land. The squatters weren’t hooked up to the water or electricity grids, but they were there. It can take years to find a solution to this sort of problem.”
- **Zoning:** Investing in agricultural land that hasn’t yet been zoned for residential or commercial use is extremely risky. But some investors take the risk because the potential profits can be sky-high. An example: A dunam of agricultural land without Taba might cost between \$17,000 and \$50,000, while a dunam with Taba ready for building could cost between \$200,000 and \$250,000. Why the big price differential? The dunam with Taba is much more likely to be developed within a few years. Agricultural land in the middle of nowhere might never be rezoned. “Investing in agricultural land without Taba is like playing Lotto,” says Meir. “You might win big-time, but you’re just as likely to lose your entire investment.”

With so much potential for unexpected delays, Meir says it’s crucial for a potential investor to be prepared. “If you aren’t a businessperson, work with a financial advisor who will help you create spreadsheets for different scenarios, including a worst-case scenario. Ask yourself: If a project takes four years or ten years to be built, instead of two, will you be able to carry the debt? If not, you can’t go into it. No one can say the unexpected won’t happen. There are always risks.” Meir Shterenberg can be reached at 4pitrnot@gmail.com.

estate market in Israel, which seemed always to go in one direction — up. The lawyer mentioned he was making a *chasunah* in another month and he was very grateful he had bought an apartment as an investment when his children were still young. He had put most of the rental money he had received over the years into a special savings account, so now the thought of marrying off his children didn't send him into a panic.

"Is that what you're hoping to do?" he asked me.

"*B'ezras Hashem*," I replied, remembering how hard the financial strain had been for my father when it came time to marry off me and my siblings.

The lawyer had brought along some architectural drawings, so I could better visualize how the plot of land would look after it had been developed. It didn't take much to convince me that the project looked great.

Looking back, I should have been more skeptical. Here was this well-located plot of land in a prosperous *yishuv* — why hadn't anyone developed it before? At the time, though, I thought I knew the answer: Hashem had been saving it for me.

## URBAN LEGEND

Back in Jerusalem, I went to see a lawyer to ask his opinion. He wasn't a real estate lawyer and he didn't know anything about the current project. But he said he'd heard of the development company, which had been around for many years, and in his opinion it was okay to do business with them.

I discussed the project with my brothers and sisters. We were all in the same boat financially — slowly sinking. Two of them were as excited as I was. We pooled our money together — cash from the bank loans we had taken out — and

I bought two apartments. A little while later, the company's lawyer asked if I was interested in buying a third one. When I said I couldn't afford it, he told me not to worry. If I could come up with a down payment of just \$20,000, he'd arrange a mortgage for the rest. How could I refuse?

The seven months passed. When building hadn't started, I asked the sales agent what was going on. He told me to be patient. The company was involved in several projects, so the one in Kiryat Davidka was a bit behind schedule.

After four years of waiting, I finally hired a lawyer. As a first step he immediately did something I should have done to start with: He went to Tabu (land registry) to find out who owned the property. When he called back, it was with a bombshell. The plot of land had never been registered in the name of the company. In fact, the land was owned by an Arab, who said he had never sold the land to anyone.

I had fallen for a scam.

## LOOKING FOR CLOSURE

We took the company to court. It took several years, but in the end we won. The judge ordered the company to return the money for the first two apartments because I had signed a written contract that claimed, in black and white, the company had bought the land and had permission to build. But because I had made a separate and unofficial agreement concerning the third apartment, I didn't get back that money.

I insisted my siblings take the money we received, after we paid all the legal fees, so they could pay back their loans. I felt it was my fault they had invested in the project. My wife agreed I should do this, for the sake of family peace.

I had to leave *kollel*, because I needed

to earn money to repay my own bank loans. Maybe because I'm still so demoralized by what happened, I've drifted from one low-paying job to the next. Ten years later, I'm still struggling to make the monthly payments — which are on top of all our other expenses. So this has been a big test for my entire family. You need peace of mind to have a peaceful home, and that's hard when you're going through financial troubles with no end in sight, like we are.

I understand the plot of land is still empty. Maybe someday someone will build their dream apartment on it. And maybe someday I'll get back my dreams too.

## KEY TERMS

If you're new to real estate investing in Eretz Yisrael, here is a basic lexicon to get you started:

**Dunam:** One dunam is equal to 1,000 square meters or 0.247 acres.

**Minhal (Israel Land Administration):** In Eretz Yisrael, 93 percent of the land is public domain and there is no outright ownership; it's the property of the State of Israel, the Jewish National Fund, or the Development Authority. The Minhal is the government agency responsible for managing this land. When a person "buys" Minhal-managed real estate, it usually means leasing rights from the Minhal for 49 or 98 years.

**Tabu (Israel Land Registry):** Here is where you'll find information about each property: its total area, size upon construction, and whether there are attachments such as a garden or parking or a possible mortgage.

**Taba (City Building Plan):** The developer says there's no problem with building apartments? Before you believe him, check the Taba, where you'll find all the definitions, restrictions, instructions, and other zoning information for all buildings in a certain area.